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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 000305

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SUBJECT: ISA: PRC "GRAVELY CONCERNED" BY INDICATIONS THAT
U.S. WILL SANCTION SINOPEC FOR YADAVARAN DEAL

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Classified By: Political Minister Counselor Aubrey Carlson. Reasons 1.
4 (b and d).

11. (C) SUMMARY: Assistant Foreign Minister He Yafei told the Ambassador January 28 that China is "gravely concerned" over indications that the USG is considering sanctions on Sinopec under the Iran Sanctions Act (ISA) for the recently concluded deal to develop the Yadavaran oilfield. He echoed familiar talking points on the Yadavaran deal as a normal services contract, not an investment deal, which has been developing since 2003, adding that it is not related to the Iran nuclear issue. He said that China takes November 2007 comments by the Secretary recognizing "China's wish to have its economic interests in Iran respected" as a commitment to respect China's energy cooperation with Iran. AFM He said such sanctions would "undermine the atmosphere for U.S.-China cooperation on the Iran nuclear issue in the UN Security Council and the P5-plus-1 framework." He stressed the importance of Sinopec for China's energy security. When asked, AFM He acknowledged that China had no specific news of a USG sanctions decision being reached but said that the issue was of such importance that the PRC had to proactively make known its views. The Ambassador made clear long-standing U.S. views that the Yadavaran deal sends the wrong signal to the Iranian regime. END SUMMARY.

Sanctions Will Affect U.S.-China Cooperation

12. (C) MFA Assistant Foreign Minister He Yafei called in the Ambassador on January 28 to make a "stern representation" regarding "indications" that the United States is considering imposing sanctions on Sinopec under the Iran Sanctions Act (ISA) for the recently concluded deal to develop the Yadavaran oilfield. Stressing that China is "gravely concerned by and firmly opposed to" such actions, AFM He strongly urged the United States reconsider its position and "discard the erroneous action" of imposing sanctions under U.S. law on a Chinese company. How the USG responds, he added, will guide how China approaches cooperation with the U.S. on the Iranian nuclear issue.

13. (C) Echoing familiar talking points, AFM He stressed that the Sinopec deal with Iran constitutes "normal, transparent trade" between sovereign countries and that such trade is necessary for ensuring China's energy needs are met. He added that the deal is necessary for the Iranian people as well, underscoring that the deal does not violate international laws and is unrelated to China's position on nonproliferation. Sinopec has been working to develop this deal with Iran through "difficult negotiations" since 2003, and the finalization of the deal was unrelated to the current situation with Iran's nuclear program. He added that the

Sinopec Yadavaran deal is a service contract and does not constitute investment.

AFM He Urges U.S. to Match Words with Actions

14. (C) AFM He said that Secretary Rice "indicated" to Foreign Minister Yang Jiechi on the margins of the Annapolis Conference on the Middle East Peace Process that the United States "recognizes China's wish to have its economic interests in Iran respected," and therefore China expected that the UN Security Council draft resolution would not target China's energy cooperation with Iran. AFM He urged the United States to "match words with actions."

"General Goals" Are Same; China Still on Dual-Track Train

15. (C) AFM He said that the United States and China share the same "general goals" on the Iran nuclear issue, stressing that there is no "strategic division" between the two sides. He stressed China's commitment to the international nonproliferation regime and underscored China's commitment to the dual-track approach to the Iran nuclear issue. The PRC played an active role in drafting the draft UNSCR, AFM said, and China showed "maximum flexibility" in the process, "fully accommodating U.S. views."

Sanctions Would Undermine Cooperation

16. (C) AFM He expressed regret that the USG had "disregarded China's efforts" and made "unwarranted remarks on legitimate energy cooperation" shortly after reaching consensus in the P5-plus-1 process in claiming we could impose sanctions on Sinopec. Such "highly dangerous" actions would "undermine the atmosphere for U.S.-China cooperation on the Iran nuclear

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issue in the UN Security Council and the P5-plus-1 framework."

China Hoping to Preempt USG Decision on Sanctions

17. (C) Asked if his representation meant the Chinese heard the USG had made a decision on Yadavaran-related sanctions against Sinopec, AFM He said no, but the PRC Government understands that the USG is seriously considering such sanctions. Sinopec, AFM He stressed, is an important entity. This issue bears upon the energy security of China and thus is a very important issue on which the PRC Government cannot afford to take a passive approach. That is why China is making its views clear to the United States before such a decision is reached.

18. (C) The Ambassador noted we take PRC concerns seriously and promised to report AFM He's representation to Washington. He pointed out however that, while Sinopec has been working on this agreement since 2003, the United States since 2003 has been making clear to the PRC our opposition to the deal because it sends the wrong signal to the Iranian regime. USG unhappiness about the recent agreement, therefore, should come as no surprise.

RANDT